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SUBJECT: NZ PUBLIC SECTOR CUTS UNDERWAY

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11. (SBU) Summary. In keeping with its campaign pledge to curb New Zealand public sector expenditure, the National-led Government has instigated a review of public spending in advance of the May 28 budget. The main aim of the review is to identify programs and personnel not consistent with Government priorities. It forms part of PM John Key's longstanding goal to introduce more private sector principles to the public sector. However, Government opponents assert significant public sector job cuts will ultimately emerge. Though worsening economic conditions and reduced operating budgets may make some public service job loss and wider program cuts inevitable, public and political fallout for such actions may not prove damaging for the Government. End Summary.

Public Sector Review Signaled Well in Advance

12. (SBU) Soon after winning the 2008 election, the National Party established a review process on state agency spending. The Government's public sector spending reassessment was telegraphed well in advance and is largely unrelated to present economic conditions. The ruling National Party campaigned on a pledge to undertake such a review well before the November 2008 election. In early 2008, it released the following policy aims regarding the NZ public sector:

- Cap the size of the core bureaucracy in the first term of government, and ensure that priority is given to delivering frontline services that directly benefit New Zealanders.
- Limit new spending in the first Budget to the priorities National identified during the election campaign and non-discretionary pressures that cannot be deferred or absorbed.
- Require departmental chief executives to undertake a line-by-line review of their expenditures with the goal of identifying areas where savings in government administration can be made.
- Establish a Cabinet Expenditure Control Committee to oversee this process and to consider chief executives' reports on potential savings.

Spending Review Indict to All State Agencies

13. (SBU) In December 2008, Finance Minister Bill English instructed all state agency executives to start the expenditure review process. The list of recommendations from state agencies will be peer-reviewed by a panel of senior public service executives and private sector consultants. The Government wants state agencies to identify programs that are inconsistent with Government priorities, those with uncertain cost-effectiveness, and to outline the scale and time of savings. An indication of the switch of priorities came at the Environment Ministry, where 86 positions involved in making

the civil service carbon-neutral are to be eliminated.

¶4. (SBU) Additionally, different departments were asked to identify up to ten percent of their lowest value spending ahead of the May 28, Budget. English stated that there was no target to cut government spending by up to ten percent. Despite English's assurances that there was no specific target, junior government minister Heather Roy, of the right-wing ACT Party, was quoted in February as saying that the Government's "razor gang" wanted to slice ten percent from ministerial and departmental budgets. Though Roy later retracted her comments, it was seized on by the opposition as evidence of a supposed hidden agenda to slash the public service.

Labour and Unions Foresee Greater Cuts

¶5. (SBU) The opposition Labour Party has accused National of reneging on its election campaign promise to simply cap core public service numbers at present levels. Labour has asserted that National's true agenda has now been brought into sharper relief and that it intends to cut thousands of public sector jobs. Labour argued that if the Government downsizes the public sector it will have a dramatic effect on the delivery of frontline public services. Union leaders also chimed in and claimed a push for a ten percent cut in public sector staffing levels will ultimately emerge.

PM Key Insists No Enemy of Bureaucracy

¶6. (SBU) Like past leaders of the traditionally conservative National party, PM John Key favors smaller government. However, he freely acknowledges the role government must play in the provision of certain essential front-line services and wants this to continue. He claims to not want a radical overhaul of the public sector.

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Rather his over-arching objective is to make the NZ public sector more innovative, efficient and accountable to public needs.

More Private Sector Principles in Public Sector

¶7. (SBU) A central tenet of the Government's broader program is to introduce private sector practices to the government's bureaucracy. Before the 2008 election, Key stated that he recognized that "there is a high level of professionalism and competence in New Zealand's public service. What is needed is effective political leadership that sets clear goals that are professionally communicated." Key openly recognizes the professionalism of public servants and expects high-quality, timely advice and has included public service advisers in Cabinet committee discussions where appropriate.

¶8. (SBU) Key has already ordered a public sector pay freeze along the lines of normal commercial practice in economic downcycles. Though the Government will honor agreements to boost public sector wages where it is contractually bound, other public sector workers have been told bluntly they cannot expect wage increases.

Some Labour-Friendly Public Officials Move On

¶9. (SBU) A commonly-held perception among New Zealanders is that Labour inserted its own people in key public sector positions as a means to further its narrow political objectives. National was highly critical of this practice and asserted that it undermined the apolitical tradition of the NZ public service. It pledged that it would assess candidates for public service positions on the basis of competency and not political affiliation.

¶10. (SBU) After the 2008 election, National moved quickly to inform a number of Labour-appointed (and organized labor friendly) public sector directors that they will not be re-appointed. These included Trade Unionist Ross Wilson at the Accident Compensation Commission (ACC) the state-owned national accident insurer, and former Labour Party candidate David Shand at the state-owned energy company,

Meridian Energy. In their place, National has appointment new directors with well-established business credentials.

2009 Budget and Public Sector Spending

¶11. (SBU) The Government is presently busy deciding on expenditure priorities for the May 28 budget. In what will be his first Budget, Finance Minister Bill English will account for the line-by-line review of public sector spending. But as Budget Day draws nearer he will try to talk down expectations of new public sector expenditure given the worsening state of the Government's books. Ultimately though, the likelihood is that public spending levels will still track upward but more slowly than under Labour.

Comment

¶12. (SBU) Most New Zealanders believe, with some justification, that the previous Labour-led Government went overboard on expanding the bureaucracy without achieving better outcomes. Budget surpluses were spent in the good years on an expansion of the bureaucracy and a proliferation feel-good measures, such as the drive to make the public service carbon neutral. National's public sector review will likely result in some pain being felt by public servants - job loss and program reduction. The political cost for the Government of such actions may, however, be mitigated by the public's pragmatic recognition that the country faces a worsening economic climate not of National's making. Therefore, a reassessment of spending priorities will, to some extent, be accepted in light of the stark new economic realities. End Comment.

Keegan